

## Startups struggling to find follow-on funds due to closer scrutiny by VC firms

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[http://articles.economictimes.indiatimes.com/2015-02-04/news/58795729\\_1\\_vc-funding-seed-funding-angel-investors](http://articles.economictimes.indiatimes.com/2015-02-04/news/58795729_1_vc-funding-seed-funding-angel-investors)

BENGALURU: Scores of startups that emerged in recent years backed by a plethora of angel investors and accelerators are struggling to secure follow-on funds from larger investors, raising doubts about their ability to cross over to the crucial growth stage.

While it is becoming easier to launch a business, entrepreneurs are realising it is not quite so simple to carry on as growth-stage investors subject them to greater scrutiny — leading to a funding chokehold known in venture capital terminology as a "Series-A crunch".

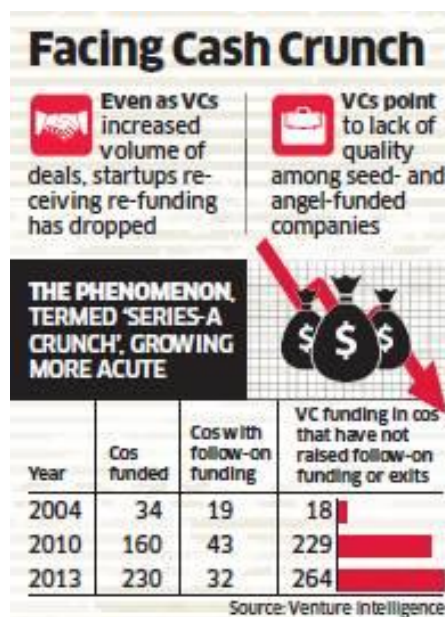
This is more so for non-tech startups. Startups typically seek \$1-3 million (Rs 6-18 crore) in Series-A or follow-on investments 2-3 years after securing their first round of investments, as they prepare to scale up having sorted out early hitches and firmed a business plan.

"We've been pitching around since July — it's been tough," said Aneesh Khanna, founder of home healthcare startup MyLabYogi, which raised Rs 1 crore in seed funding from Hyderabad Angels in 2013. "The flavour of the season has been ecommerce, mobile solutions and SaaS (software as a service), so it's been tough trying to reach out to people who understand healthcare."

Data from research platform VCCEdge showed that while the number of angel and seed deals rose to 283 in 2014 from 117 in 2011, Series-A deals dropped to 74 from 119 over that period. Overall, VC investors pumped in more than \$2.1 billion across 246 deals last year, including 60 seed-stage investments, according to VCCEdge. That compares with about \$1.4 billion in VC funding across 217 deals in the year before.

"There are much more companies competing for post-seed funding, but no single player is being added to the Series-A fund, so there is an acute chokepoint," said Karthik Reddy, cofounder and managing partner of Blume Ventures. The fund has invested in companies such as Grey Orange Robotics and Zopper, which are both scaling up globally with follow-on funding from US investment firm Tiger Global.

According to data gathered by analytics firm Venture Intelligence, although the number of funded companies steadily increased to 230 in 2013 from 160 in 2010, the number of startups that secured refunding dropped to 32 in 2013 from 43 four years earlier.



"The hurdle to starting up a company has come down, but non-institutional investors are not demonstrating the same level of rigour in evaluating companies before funding," said serial entrepreneur Krishnan Ganesh, co-founder of home healthcare provider Portea Medical and earlier online tutoring startup TutorVista. "This leads to a Series-A crunch down the line, when venture capitalists look for a lot more validation and proof of concept."

According to a study done on 2,000 US venture-backed companies during 2004-10 by Shikhar Ghosh, an IIT-Bombay graduate and a Harvard Business School lecturer, only 24% of these startups were able to return profits for their investors.

"The number of investors, angels, companies and incubators has increased, but the quality of startups hasn't kept pace," said serial entrepreneur and investor Rehan Yar Khan, who noted that the startup mortality rate has gone up globally over the past decade. "It's only natural." The increasing risk appetite of Indian investors at the seed stage is also to blame for the Series-A crunch, with several of them now more open to even backing business ideas without a monetisation plan.

"As long as there's a massive amount of engaged adoption, we will think of ways to monetise later — that's a bet we are willing to take," said Mayank Khanduja, vice-president of venture capital firm SAIF Partners that also invests at the seed funding stage. The firm has invested in offline, traditionally more risky ventures such as travel agency TravelTriangle and usedcar marketplace Zoomo. Entrepreneurs are now learning to identify seed stage investors who are also likely to provide follow-on funding, instead of merely securing any investment they can get their hands on.

"You just have to be very clear what kind of people you want on board, taking into account what they have done in the investment space," said Anshulika Dubey, founder of crowdfunding platform Wishberry, which recently closed a seed round valued at Rs4 crore led by angel investor Rajan Anandan.